BELLSOUTH

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FEDERA COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

July 25, 1996

EX PARTE OR LATE FILED

DOCKET FILE COPY ORIGINAL

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

RE: CC Docket 96-128 Implementation of The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996
Ex Parte

Dear Mr. Caton:

In accordance with Section 1.1206 of the Commission's rules, this is to notify you that on July 25, 1996 members and representatives of the RBOC Payphone Coalition met with personnel of the Common Carrier Bureau of the FCC to discuss major issues raised in the above referenced proceeding. Also in attendance was a representative of the United States Telephone Association. The complete list of attendees is provided as an attachment.

The enclosed document was prepared by the Coalition and was used for discussion purposes.

The meeting was held at the encouragement of the FCC staff to achieve mutual benefits of time and productivity efficiencies in discussing the positions of the six companies in the RBOC Payphone Coalition

Please associate this notification and accompanying document with the docket proceeding.

If there are any questions concerning this notification, please contact the undersigned.

Sincerely,

Ben G. Almond

Ben G. Almond
Executive Director-Federal Regulatory

Attachment/Enclosure

cc: FCC Attendees

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List ABCDE

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RBOC Coalition Ex Parte 7/25/96

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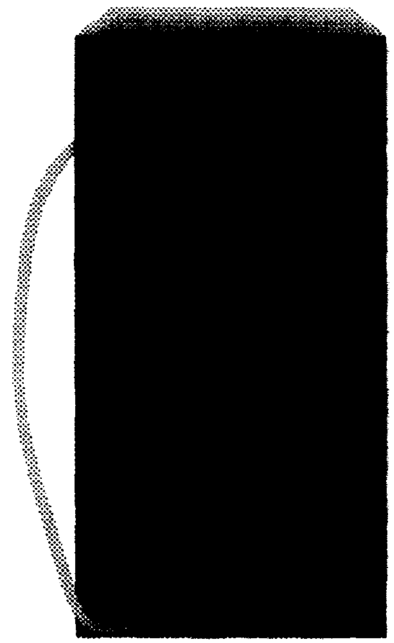
JUL 25 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Name	Co.
THADDEUS MACHCINSKI	FCC
KENNETH ACKERMAN	FCC
ROBERT W. SPANGLER	FCC
Michael Carowitz	FCC
ROSE CRELLIN	FCC
TOM ZAGORSKY	FCC
Glenn Reynolds	FCC
SELENE PATTERSON	BELLSOUTH
DIANE GIACALONE	NYNEX
Rob Wentland	ARTHUR ANDERSON
JOHN HARING	SPR
David Cockcroft	BellSouth
Jim Hawkins	BellSouth
BEN ALMOND	BellSouth
ALAN CORT	NYNEX
ED EVERETT	BELL ATL.
Lorrain Chicking	Bell Atl.
MARIE BRESLIN	BELL ATLANTIC
Rod Stanley	Pacific Bell
BOB SLEVIN	NYNEX
Miriam Hernandez-Kakol	Bellcore
MIKE CRUMLING	US WEST
David Anastasi	US WEST
Sandra Tomlinson	US WEST

John S. Muleta	FCC Enforcement Division
Aimee Fite	SWBT
Allison Patrick	SWBT
Todd Silbergeld	SBC Communications Inc.
Michael Kellogg	Kellogg, Huber, Hansen, Todd & Evans
Dan Lanksbury	US WEST
Marylou Shockley	Pacific Bell
Joe Incorvati	Bellcore
Frank McKennedy	USTA

RBOC COALITION FCC PAYPHONE WORKSHOP



JULY 25, 1996
WASHINGTON, D.C.

STATEMENT OF VISION

Section 276 provides the overarching goals

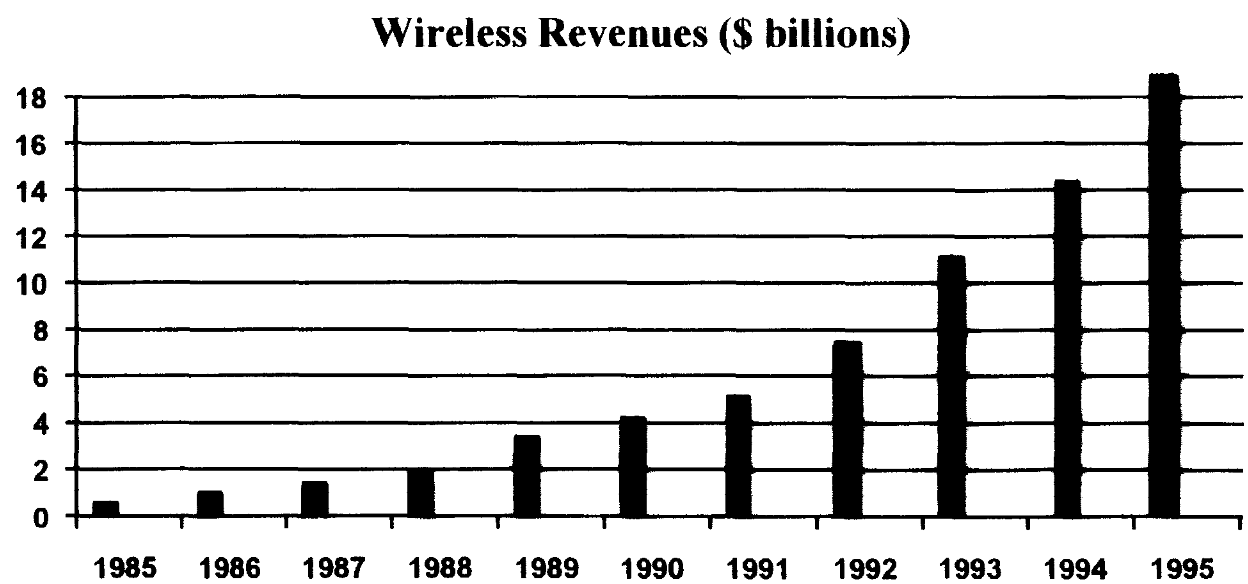
- "Promote competition among payphone service providers"
- "Promote the widespread deployment of payphone services to the benefit of the general public"
- Ensure convenient, efficient and affordable service for the public good through competition and widespread deployment

COALITION PRINCIPLES

- Primacy of Market Forces
- Regulatory Parity
- Compensation for All Completed Calls
- Appropriate Valuation of Assets
- Structural Flexibility
- Pricing Flexibility for Semi-public Payphones
- Public Interest Payphones Fairly Compensated

THE PEOPLE IN MOTION MARKETPLACE

- Multiple service providers
  - Payphones (LECs, IPPs and Carriers)
  - Wireless (Cellular, Mobile Radio and, in the future, PCS)



Sources: CTIA Wireless Factbook 13 (Spring 1996)

THE PAYPHONE INDUSTRY TODAY

- More than 15,000 independent PSPs
  - -- Competition for locations and end user traffic
- More than 500 toll service providers
  - -- Competition for payphone toll traffic
  - -- Large carriers (e.g., 1-800-CALL-ATT, 1-800-COLLECT)
  - -- Debit cards
- More than 2 million payphones
- Estimated RBOC annual revenues of $2.3 billion

REGULATORY AND TECHNOLOGICAL CHANGES YIELD AN INTENSELY COMPETITIVE PAYPHONE INDUSTRY

Intense Competition

1996
- Telecommunications Act of 1996 mandates level playing field for PSPs
- Inmate deregulation order

1995
- Court rules FCC should consider 1-800 compensation

1994
- AT&T agrees to per call compensation for non-LEC PSPs

1992
- Dial around compensation ordered for non-LEC PSPs

1990
- Telephone Operator Consumer Service Improvement Act (TOCSIA) enacted
- 1+ Public Presubscription

1988
- 0+ Public Presubscription

1985-1986
- Most states approve competition in payphone market

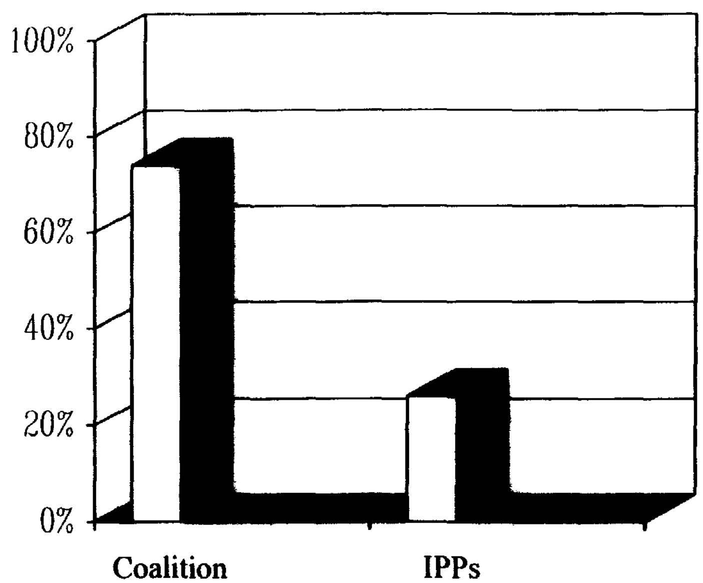
1984
- Payphone competition allowed by FCC

1983
- Payphones not included in Equal Access (EA)

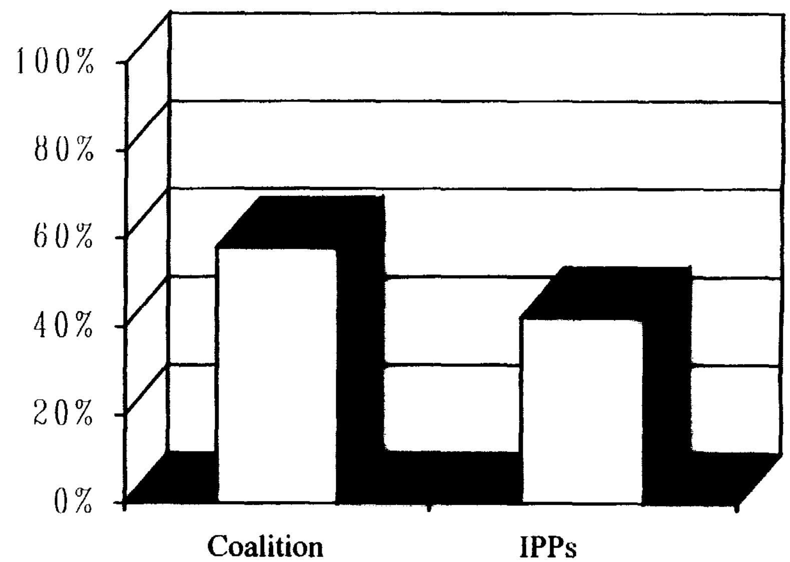
PAYPHONES AND CALL VOLUMES IN COALITION REGIONS

Coalition Payphones	= 1.05 million	74%	Coalition Volume	4.2 billion	58%
IPP Payphones	= 0.37 million	26%	IPP Volume	3.0 billion	42%

PAYPHONES 1996

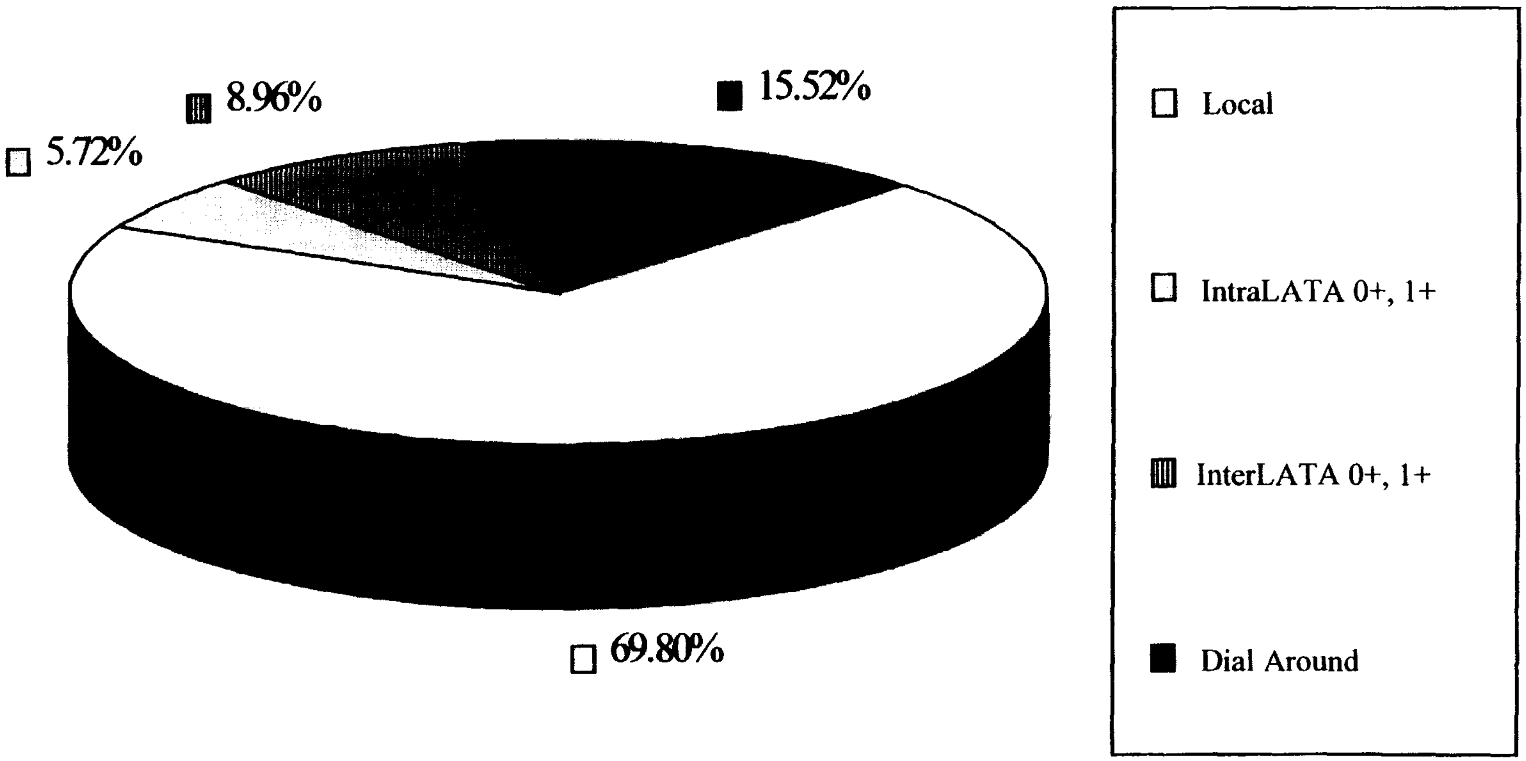


CALL VOLUME 1996



❖*Call volumes based on average call volume of 500 cash calls provided in APCC comments on the FCC's NPRM*

DISTRIBUTION OF PAYPHONE CALLS

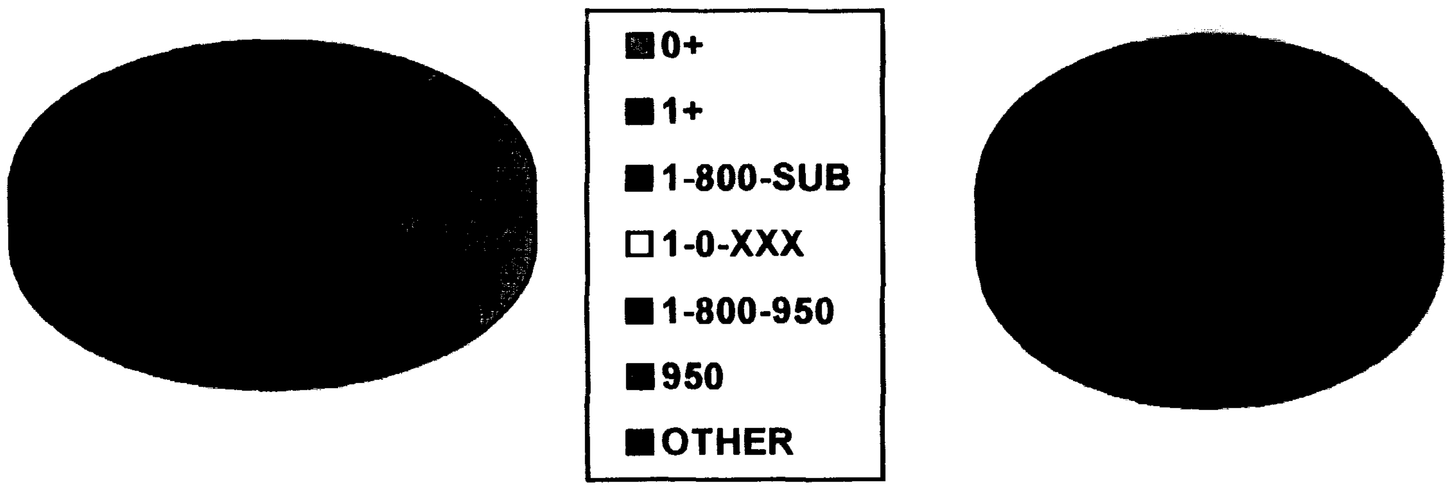


Source: RBOC Coalition data

TOLL CALL DISTRIBUTION

INTRASTATE

INTERSTATE



Intrastate

0+	=	20.60%
1+	=	18.30%
1-800-SUB	=	56.50%
1-0-XXX	=	.70%
1-800-950	=	.05%
950	=	3.80%
OTHER	=	.08%

Interstate

0+	=	3.4%
1+	=	2.1%
1-800-SUB	=	90.6%
1-0-XXX	=	.5%
1-800-950	=	1.8%
950	=	1.6%
OTHER	=	.0%

Source: U S West bill and track

PER CALL COMPENSATION

To ensure fair compensation on all completed calls, except emergency and TRS calls:

- A default rate should be established for 1+, 0+, dial around and 1-800-subscriber calls
- The party that receives the primary economic benefit should pay per call compensation to PSPs
- Tracking should be provided by carriers and 1-800 service providers; alternative tracking methods should be allowed
- Per call compensation should coincide with the removal of the payphone element of access charges

MARKET-BASED COMPENSATION

- Transition to market-based per-call compensation -- do not freeze out market forces
- TOCSIA prevents negotiations because PSPs have no leverage -- default rate restores some leverage
- A higher default rate will ensure vigorous negotiations and the widespread deployment of payphones
- Default rate disappears as negotiations become routine

WHAT'S THE DEFAULT RATE?

Per-Call Commission Received by Largest APCC Member	$0.90
Average Per-Call Compensation Assuming Average AT&T Tariffs	***$0.81***
Average Non-Coin Per-Call Compensation Received by Three Largest IPPs	$0.84
Updated and Revised 0- Transfer Charge Study	$0.46-$0.54

WHO PAYS?

CALL TYPE	PARTY RECEIVING PRIMARY ECONOMIC BENEFIT
Local - Cash	Payphone Service Provider
Local - Non-Cash (OSP)	Operator Service Provider
Local - Non-Cash (Store and Forward)	Payphone Service Provider
Toll - 1+ Cash	Presubscribed or Default Toll Provider
Toll - 0+ Non-Cash	Presubscribed Toll Service Provider
Dial Around	Toll Service Provider
1-800-Subscriber	1-800 Service Provider
1-800 Debit Card	1-800 Service Provider
Store and Forward Toll	Payphone Service Provider
Local Directory Assistance	Payphone Service Provider
Toll Directory Assistance	Toll Service Provider
Emergency/911	No Compensation
Telecommunications Relay Service	No Compensation

WHO TRACKS?

Party receiving primary economic benefit is responsible for tracking

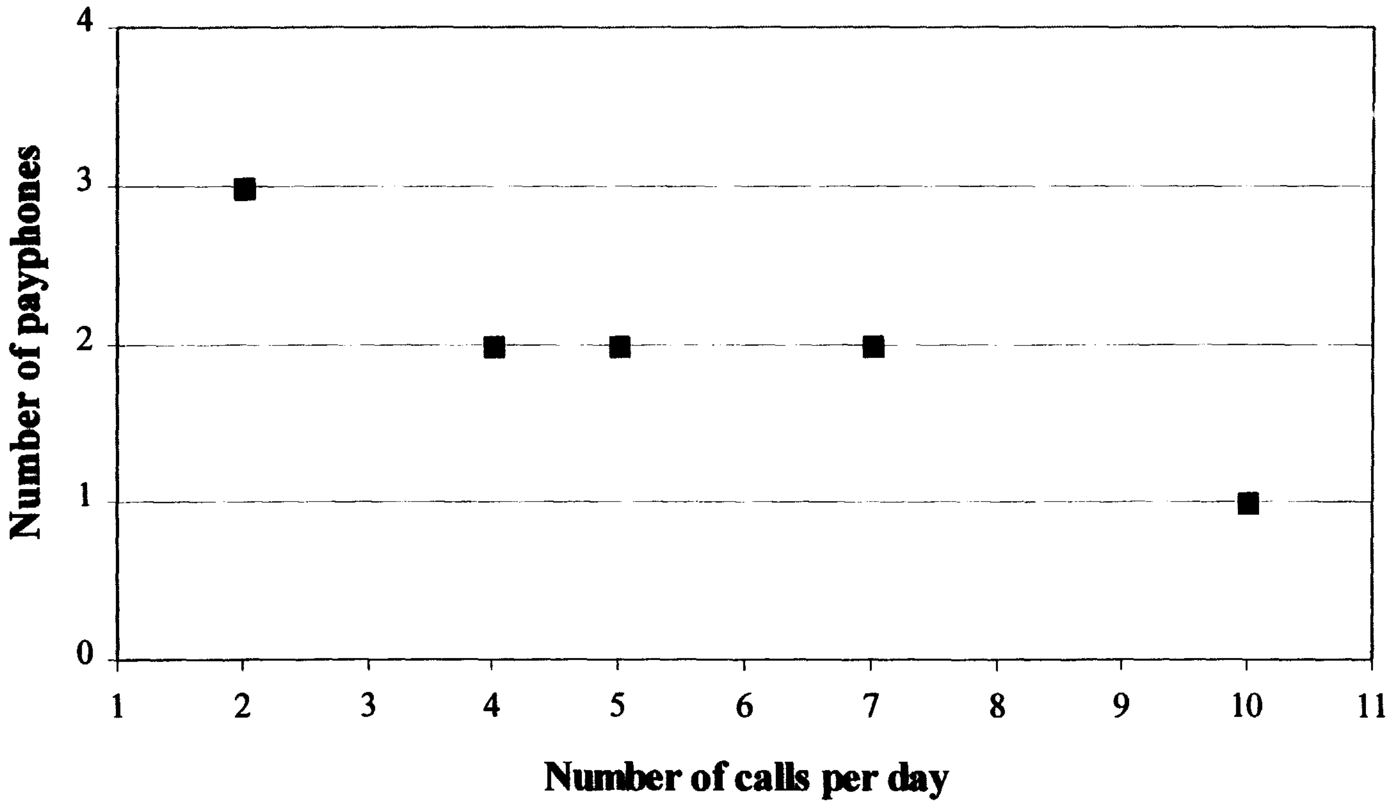
LECs should not be required to track where they do not receive the primary economic benefit

- LECs cannot track toll calls handled by other toll service providers
- LECs cannot track completion to called party on 1-800 calls
- LECs cannot track sequential calls using the "#" sign
- LECs do not receive the primary economic benefit for PSP calls routed to other toll service providers and should not incur the cost of developing a tracking system

PITFALLS OF USING A COST-BASED APPROACH

- Cost-based approach does not equal "fair compensation"
- Cost-based approach does not ensure "widespread deployment" of payphones
- Cost-based approach ignores widely different costs among PSPs
- Cost-based approach mandates continuing regulatory intervention

SAMPLE PAYPHONE DISTRIBUTION



This distribution has the characteristic that half the phones have less than the average number of calls per day. In reality, more than half of all phones have less than the average number of calls per day.

SIMPLE NUMERICAL EXAMPLE

Under assumed distribution:

Total number of calls per day = 48

Total Costs = $44/day*

*assumes

9 phones @ $4/day	(9 x $4 = $36)
1(7 calls/day) phone @ $8/day	(1 x $8 = $8)
	($36+$8 = $44)

Average cost /call ($44/48 calls)=$0.91
Average calls/day/phone = 4.8

($0.91)(4.8 calls/day) = $4.40 = average cost/phone/day

Result:

Phones with less than 4.8 calls/day are removed:

2-call phones: 2 x .91 = $1.82 < $4
4-call phones: 4 x .91 = $3.64 < $4

High-cost phones with 7 calls/day removed:

7-call phone: 7 x .91 = $6.37 < $8

Competitve entry occurs where profitable:

10-call phone: 10 x .91 = $9.10 > $4

CONCLUSION

- "Average" compensation fails to support payphones with:
  - –Below-average usage
  - –Above-average cost
- Consequences of cost-based compensation
  - –Degradation of service
  - –Collapse of product quality
  - –"Recipe for bankruptcy"

LOCAL CALL RATE

- All Coalition members agree that the market, not regulators, should establish the local call rate

- Three members believe immediate pricing freedom is appropriate

- Three members believe there should be a period of transition to full pricing freedom

RECLASSIFICATION OF LEC PAYPHONES AS CPE

- Coin collect and return functionality should be unbundled to the line level
- Part 68 registration requirements:
  - Embedded base of LEC payphones should be grandfathered
  - Refurbished LEC "dumb" payphones should be grandfathered unless the payphone is modified
- Demarcation Point
  - All new payphones should be installed consistent with flexible "MPOE" standard
  - Embedded base of LEC payphones should be grandfathered
  - Existing LEC "smart" payphones should be grandfathered with the station protector being the theoretical or "virtual" network interface

VALUATION OF PAYPHONE ASSETS

- Asset reclassification, not sale of assets
- Reclassification value consistent with Joint Cost Order (net book value)
- Intangible contract values and advance payments are not appropriate
- Dedicated payphone assets only
  - Paystation Equipment
  - Land and Buildings
- Interest charges are not applicable

NONSTRUCTURAL SAFEGUARDS

- The Coalition supports the application of nonstructural safeguards
  - Precedent of CI-III
  - Uniform cost allocation standards
  - External and internal audits
  - Price caps reduced incentive for non-compliance
- Proven effectiveness of nonstructural safeguards